



NSW Government Response
to the
IPART Issues Paper

Pricing NSW Government Mobile Radio Services

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Introduction

Government radiocommunications networks and services are used to support a range of operational purposes, both critical and non critical. Radio provides operational personnel with a communication medium, on either a 'one-to-many' or 'one-to-one' basis that is private, secure, reliable and under the direct oversight of the Government.

The highest priority of government radio networks is to support Law Enforcement, Public Safety and Emergency Services agencies. These “lights and sirens” agencies deliver services where life and property are at stake. Government radio networks exist because public mobile telephone services cannot provide the capabilities essential to their operations.

All Emergency Services agencies recognise the importance of sharing networks to achieve efficiencies in operations and capital investment. Emergency Services agencies that currently operate conventional networks support the concept of consolidating their networks with the GRN where possible however, they must receive at least the same level of service from the consolidated network as they receive from their current network.

Efficient mobile radiocommunications to a guaranteed Quality of Service are fundamental to staff safety and the effective protection of life and property. Emergency Services agencies do not want to have a pricing mechanism which results in budgets limitations impacting front line resources use of the radio network.

Essential service providers in areas such as transport, energy and water supply also rely heavily on mobile radio communications for everyday worksite communications and business activity as well as at times of emergency or disaster.

Effective and interoperable radiocommunications is critical for large events, multiple agency and statewide operational response.

As a result of a strategic review of NSW Government mobile radio in 2009 (the Review), a number of reforms were recommended.

These included increasing operational efficiency for whole of government, removing unnecessary duplication and introducing full cost recovery for shared services through a revised pricing model.

The NSW Government Telecommunications Authority (Telco Authority) was charged with implementing operational efficiencies while an IPART review process was to develop pricing recommendations initially to be implemented for users of the Government Radio Network (GRN), commencing in July 2011.

The GRN is a shared trunked network primarily designed and dimensioned to provide critical support to emergency services operations inside its area of coverage (footprint). Outside the GRN footprint, agencies operate their own conventional non-shared networks to meet their business needs.

Because of the fluid nature of incidents, which can occur at any time and any place the capacity of the GRN must be designed and dimensioned to support agency radiocommunications needs in a ‘worst case scenario’.

This submission is a consolidated whole of government response to the IPART Issues Paper for ‘*Pricing NSW Government mobile radio services*’ and presents both relevant background and specific responses to the 14 key focus questions identified in the Issues Paper.

Executive Summary

In March 2011, the Independent Pricing and Regulatory Tribunal (IPART) released an Issues Paper titled 'Pricing NSW Government mobile radio' reviewing current pricing and proposing methodologies to set future prices for use of the Government Radio Network (GRN) with the intent that full cost recovery is implemented.

The Issues Paper invites responses to the 14 key questions posed. After due consideration and stakeholder discussion, a final report will be prepared by IPART recommending to the Minister for Finance and Services prices to apply from 1 July 2011 should they agree with the advice provided.

This Government submission focuses on providing not only responses to the specific questions raised in the Issues Paper but also background to the need for the review and an outline of the shift in the management of radiocommunications services in NSW that will drive greater efficiencies.

The GRN is a trunked, shared network that covers approximately one third of the area of NSW. The design, dimensioning and trunking technology enables multiple agencies to respond to incidents with a 'one-to-many', cross-agency communications capability. That is, as part of the combined response, they can all talk to each other if required (interoperability).

The current pricing schedule for users to utilise the GRN does not fully cover operating costs leaving a shortfall for Treasury supplementation. The Review recommended full cost recovery principles to ensure Government radio assets were maintained and improved, a view supported by the Government with the acknowledgement that significant price shocks to users caused by excessive increases in the short term should be avoided.

The Government believes the revised pricing arrangements should be uncomplicated and based on fixed charging arrangements.

There are a number of issues regarding the management of NSW Government radio services being addressed that will seek to maximise efficiencies to benefit the whole of government over the next few years. This will be done in consultation with user groups and include the consolidation of radiocommunications assets, greater clarity around future capital and operating expenditure, and migration of services into the dedicated government allocation of spectrum provided by the Commonwealth.

Therefore, the Government considers that there would be unacceptable risks associated with locking in a pricing structure for longer than a year and recommends a review of the pricing model after a 12 month period.

1 Responses to IPART Specific Questions

1.1 Do the trends in GRN's operating and capital expenditures appear reasonable?

The NSW Government Radio Network (GRN) is a trunked mobile radio network that has been historically provided by the Department of Finance and Services and its predecessors.

The network covers approximately one third of the land mass of NSW and enables multiple users from different agencies to make and receive calls anywhere within the network footprint. Conventional (non-shared) networks are primarily designed to provide single agency users in a given location with the capacity to communicate amongst themselves.

Unlike mobile phones, which are designed for 'one-to-one' communications, mobile radio is designed for 'one-to-many', which is more suitable for the dispatch operations of emergency and essential services organisations.

Emergency services networks, including the GRN, are designed to continue operating when commercial networks may otherwise become overloaded or disabled by ensuring adequate capacity during high usage events and by restricting access to those users that can be serviced. It can also provide priority access to a user or class of user such as law enforcement, emergency and essential services. Recent events in Queensland and around the world have highlighted the risks associated with relying on commercial telephone networks operating during and after a major event such as a natural disaster, due to congestion.

Capital and operating costs are based on the currently dimensioned network with estimates only for consolidation and expansion initiatives. Emergency Services agencies have planned expenses over the forward estimates associated with work inside the GRN footprint that will need to be assessed to determine efficiencies through removal of duplicated services.

1.1.1 Operating Expenditure

1.1.1.1 Categories

The operating expenditure for the GRN can be broadly categorised as follows;

Network management - relates to contract services for the operations, preventative maintenance and monitoring of the GRN voice network. These costs are determined under a contractual arrangement that was entered into with the current network operator following a competitive tender process in 2009.

Network link charges - relates to costs associated with linking each of the GRN sites together and backbone provision to the Network Operations Control Centre (NOCC). These costs are largely set by existing contracts with link providers following competitive tender processes.

Site Rental - relates to the costs associated with leasing and access to sites where GRN infrastructure is located.

Staff salaries and wages - relates to expenditure for staff required to manage contractual arrangements with suppliers and facilities, spectrum, finances and risk.

Frequency licence charges - relates to payments made to the federal regulator ACMA for spectrum assignment and usage.

Repairs and maintenance - relates to reactive or non preventative repairs conducted on assets in order to ensure that services continue.

Other operating expenses - relates to fees for services and office expenses, corporate and business support and electricity for sites.

1.1.1.2 Operating cost base

The operating cost base for the GRN is largely made up of fixed costs that include contracted operational management, electricity, site leases, and spectrum charges. As the network is capacity dimensioned to meet emergency and essential services requirements (worse case incident scenario), the operating cost base is not substantially altered as a result of network usage or the number of network subscribers as capacity is not exceeded in day to day operations.

It is estimated that the variable costs associated with usage comprise only a small percent of total operational expenditure. As a result the number of users on the GRN is not a major consideration in determining the operating expenditure for the normal range of user variability. A doubling of the user base would result in higher operating costs which would be reflected in capital costs in the first instance as additional equipment would be required. This would then translate into additional servicing, utilities, monitoring and maintenance costs.

The largely fixed nature of the operating costs requires a pricing model that will provide reasonable assurance of revenue to cover these operational costs as there will be limited capacity to supplement any shortfalls in GRN access revenue from other sources.

1.1.1.3 Other Expenditure

Some radiocommunications services are agency specific and do not benefit GRN users in a general sense, these include:

- The Mobile Data Radio Network (MDRN) that provides dispatch capabilities to the Ambulance Service of NSW
- ACT Emergency services connection to the GRN NOCC and Disaster Recovery NOCC (DRNOCC) core. This service is provided through a contractual agreement between the Telco Authority and the ACT Emergency Services Agency (ESA) and provides improved interoperability for border incidents.

These services have not been factored into the operational expenditure figures provided to IPART in the pricing review. It is envisaged that these services, if not already so, will be the subject of separate commercial agreements with the respective agency and not part of the GRN pricing model.

1.1.1.4 History of operational expenditure

The operating expenditure for the GRN over the past four years and projected 2010/11 is outlined below. No depreciation is included in these costs.

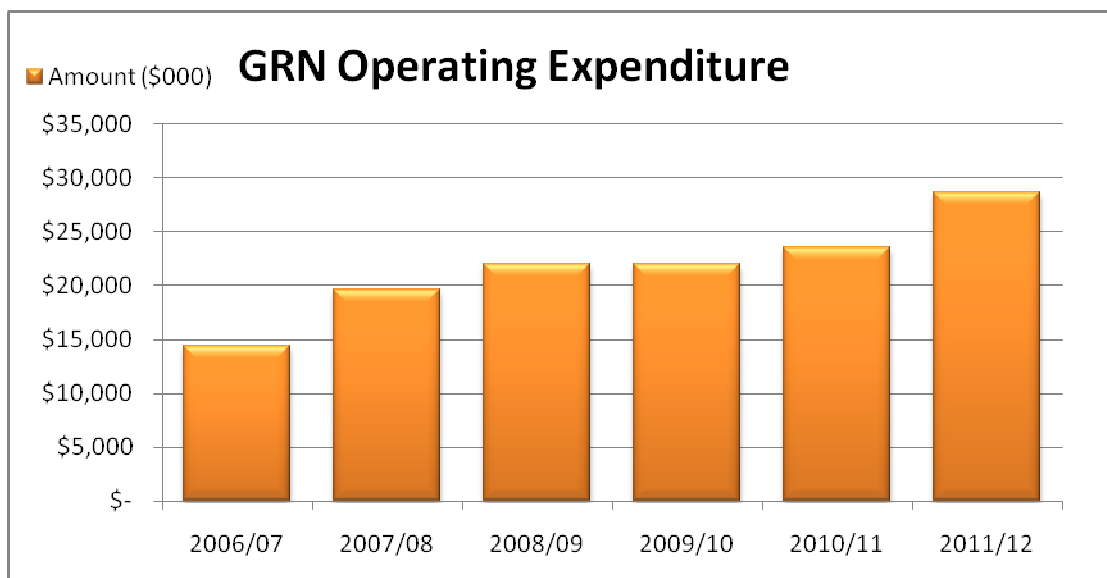


Figure 1 GRN Operating Expenditure

1.1.1.5 Year on Year changes in operating costs.

Financial Year Details 2006/07 to 2007/08

The operating expenditure for financial year 2006/07 was \$14.36M. The operating expenditure for financial year 2007/08 was \$19.58M representing an increase on the previous period of \$5.22M or 27%.

In the lead up to the FY07/08 and during this period, some 30 sites were added to the GRN, in part to provide coverage to the South Coast and in part to provide infill coverage in areas identified by the agencies as a priority for attention.

Also in the lead up to the period, the then linking technology was being phased out and, as a consequence, the Government tendered for a new link provider. In February 2006, a contract was signed to replace the existing in ground copper links with 'through the air' microwave links.

The additional sites added to the GRN's operational costs in terms of site management, site rentals and costs of electricity while the links program added costs in terms of site make ready works (such as tower strengthening to support microwave dishes, cabling and so on). Further, as the links agreement provided for a one-off capital payment at the start of each of the three stages of work, an "amortisation fee" was added to the budget as a corporate charge.

Financial Year Details 2007/08 to 2008/09.

The operating expenditure for financial year 2007/08 was \$19.58M. The operating expenditure for financial year 2008/09 was \$22.06M representing an increase on the previous period of \$2.48M or 13%.

In addition to the previous year's increase that continued into this period, there was an increase in links charges because, as microwave links came on line, it was necessary to continue to operate the old links for a period until the new links were considered to be performing to an acceptable standard. Some sites, previously connected by circuitous in ground links, did not have a line of sight to allow for a

microwave link. This necessitated the implementation of intermediate sites or ‘hops’, which incurred additional rental fees and other charges.

Financial Year Details 2009/10 to 2010/11.

The operating expenditure for financial year 2009/10 was \$22.056M with effectively no change from the previous year.

Projections for Financial Year 2010/11

The projected operating expenditure for financial year 2010/11 is anticipated to be \$23.5M representing an increase of \$1.5M or 6%.

Projections for Financial Year 2011/12

The projected operating expenditure for financial year 2011/12 is estimated to be \$29M.

1.1.2 Capital Expenditure

The capital expenditure for the GRN can be broadly categorised as monies spent on infrastructure to provide improved GRN services to meet the needs and demands of the users.

From 2006/07 to 2009/10, capital expenditure covered the P25 digital upgrade of the network and improvements in the coverage footprint (blackspot infill) which shows as an above average expenditure in Figure 2 below.

1.1.2.1 History of capital expenditure

The capital expenditure for the GRN over the past four years and projections to 2011/12 is outlined below.

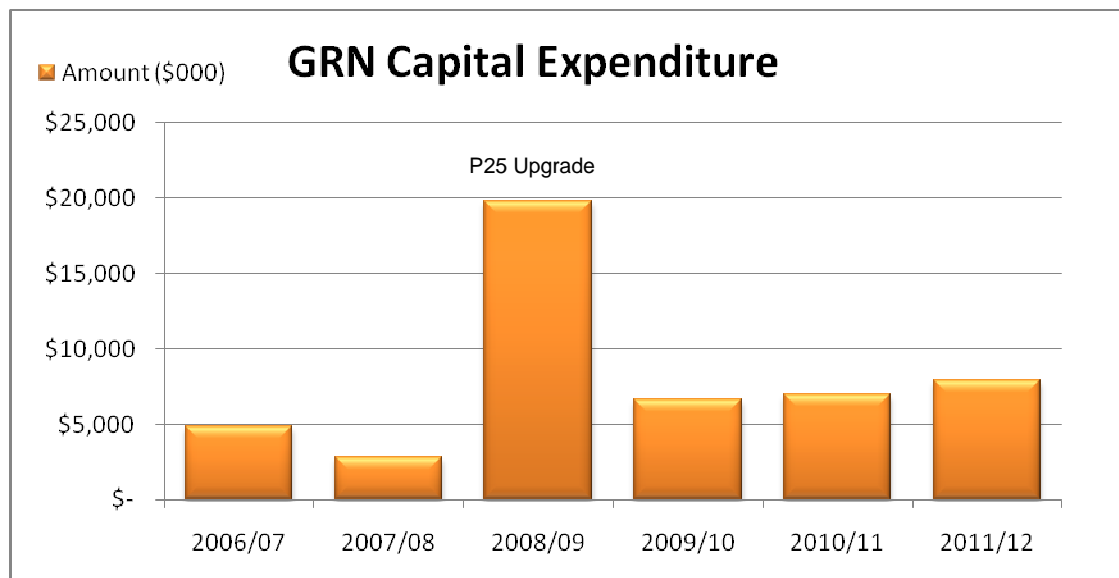


Figure 2 GRN Capital Expenditure

1.1.2.2 Year on Year changes in capital costs

Financial year details 2006/07 to 2007/08

The capital expenditure for financial year 2006/07 was \$4.9M. The capital expenditure for financial year 2007/08 was \$2.8M representing a decrease on the previous period of \$2.1M.

Financial year details 2007/08 to 2008/09

The capital expenditure for financial year 2007/08 was \$2.8M. The capital expenditure for financial year 2008/09 was \$19.78M representing an increase on the previous period of \$16.98M or 86%.

The increase in capital expenditure was as a result of commencing the GRN P25 digital upgrade project. The majority of the Treasury allocation was expended in 2008/09 on equipment items for the network infrastructure and operations control centres. The upgrade was a 3-year project.

Financial year details 2008/09 to 2009/10

The capital expenditure for financial year 2009/10 was \$6.67M representing a decrease on the previous period of \$13.11M or 66%.

Projections for Financial Year 2010/11

The projected capital expenditure for financial year 2010/11 is anticipated to be \$7M.

Projections for Financial Year 2011/12

The projected capital expenditure for financial year 2011/12 is anticipated to be \$7.96M.

Question 1 Conclusion:

The Government believes the trends in the GRN's operating costs and capital expenditures appear reasonable but note that ongoing developments at state and federal level will impact on these costs especially consolidation costs for NSW Police projected to impact 2013/14 and beyond. Therefore, the Telco Authority will review expenditures and the pricing model during the 2011/2012 period.

1.2 Is there another feasible method for establishing the GRN's total efficient costs other than the building block approach?

The terms of reference for the review require IPART to recommend:

A pricing methodology based on full cost recovery principles for application to users of shared mobile radio network infrastructure that takes into account the current and future operating and capital costs to maintain shared networks.

In the context of IPART's 'building block' approach this means that efficient operating expenses should be fully recovered through including allowances for depreciation and to enable provisioning for service improvement.

Full cost recovery pricing for the services provided by the GRN is appropriate as it will facilitate continued improvements in the coverage and service provided by ensuring sustainable long term funding for the network.

Establishing the Telco Authority, the vesting of radio assets and consolidation of radio networks should improve the operational efficiency and avoid costs associated with operating duplicative networks. Achieving a fully efficient cost base will take time. In the short term, all costs that are incurred to operate the GRN should be assessed to be recoverable.

Question 2 Conclusion:

The Government supports the building block approach for establishing the GRN’s total efficient costs while acknowledging, as previously indicated, a review of future costs for consolidation and integration which could impact on the Regulatory Asset Base.

1.3 In determining the allowance for regulatory depreciation, is ‘straight line’ depreciation appropriate, or should we use another approach?

Question 3 Conclusion:

The Government supports IPART’s use of straight line depreciation based on average asset lives, as it is simple to apply, transparent and can be determined consistently over time as well as being able to be applied to the various classes of assets that are present in the GRN and their respective lives.

There is acknowledgement that there may be exceptional depreciation charges for technological obsolescence.

1.4 In determining the allowance for a return on assets, are there grounds for departing from our usual WACC approach and its standard parameter valuations?

1.4.1 Asset related costs

Asset details

The GRN is a network of 160 linked sites with each site equipped with assets that ensure radiocommunications is always available to meet ‘worse case scenario’ emergency services operations. Each site is analysed on its capacity and coverage requirements and an amount of equipment (assets) is deployed to efficiently handle the maximum demand of expected radio transmissions.

These assets are categorised and have varying depreciation schedules to cover their useful life as indicated in Table 1 below.

Asset Category	SAP Entry	Components (if applicable)	Depreciation Life (yrs)
Building, Superstructure & Tower	TWR		40
AC/DC Power	PWR	Rectifiers	10
Antenna & Link Equipment	ANT		10

Radio Equipment	NET NOCC	Cabinets, Racks, Base Stations, Transmitter Combiner, Receive Multicoupler	10
Airconditioning	AC		5
Batteries	BAT		7
HUT	HUT	Weatherproof equipment enclosure	20

Table 1 Asset Categories and Depreciation Schedule for the GRN

The P25 upgrade of the GRN required a large replacement program for radio equipment assets to enable digital radiocommunications as some of the existing equipment was not compatible with the P25 digital open standard. This required a process of writing off the Written Down Value (WDV) value of a substantial amount of assets.

In addition, but not for the purpose of calculating the GRN Regulatory Asset Base (RAB), agencies have terminal assets to enable radiocommunications on the GRN.

Value of assets

The RAB is a representation of the dollar value of all network assets required to provide users with the agreed service levels. Once established, the RAB value is the base for establishing prices.

As at 30 June 2011, the

- Acquisition value of assets in use will be valued at \$41.2M
- Cost associated with the P25 digital upgrade is valued at \$33M

The total acquisition value of the asset base for the GRN will be valued at \$74.2M.

Estimation of the opening RAB is a critical element in IPART's price setting methodology. Amongst other requirements, the RAB that is established for the GRN will also need to generate an adequate return on assets to sustain necessary future investment.

The Government will work closely with IPART to enable an appropriate RAB to be determined.

Depreciation

Refer to 1.3 above.

Rate of return

The Government supports a pricing approach which would effectively see large GRN users charged prices that reflect the costs incurred by the Government in maintaining and expanding the network to meet the requirements of these users.

The Emergency Services agencies' operational requirements drive the design specifications they need and the required receive the Quality of Service.

To determine the costs, the Government supports the use of the weighted average cost of capital (WACC) methodology representing the required rate of return on the Government's investment in the GRN.

When costing capital projects, NSW Treasury advises the use of a recommended rate of 7 per cent to reflect an opportunity cost of capital and cost of funds approach. This is one benchmark that could be considered in determining an appropriate WACC rate.

Cost allocation (Government/User)

IPART is required to recommend a pricing methodology based on cost recovery from users.

Government contributes from Consolidated Funding for the full cost of Ambulance/Health service and other on budget agencies and partially contributes for SES/RFS/FRNSW with the balance being made up from contributions from the insurance industry (major portion) and local councils.

1.4.2 Duration of price path

A number of issues regarding the management of the GRN will be addressed over the next few years. These include the consolidation of radiocommunications assets, greater clarity around future capital and operating expenditure, and migration of services in to the dedicated government allocation of spectrum (compliance regime established by the Commonwealth with details still being developed).

Therefore, the Government considers that there would be unacceptable risks associated with locking in a pricing structure for longer than a year and recommends a review of the pricing methodology and prices after a 12 month period.

Question 4 Conclusion:

The use of an appropriate WACC rate is supported and a review commenced by the Telco Authority after 12 months.

1.5 Should we allocate costs between categories of users primarily on an impactor pays or a beneficiary pays approach, or on an approach that blends the 2 or on some other approach altogether?

Currently the GRN is designed and built around the needs of the largest users of mobile radio: the emergency services. In the future, the Telco Authority will manage a wider mobile radio network, however, the core users will be the law enforcement and emergency services.

If the requirements of the core users raise the costs of the network above the requirements of other users, it is considered reasonable that the core users bear these extra costs. A corollary is that if one of the core users requires that the network be built to a significantly higher standard than the other core users, then the additional costs should be borne predominantly by that agency.

It appears likely that it will be appropriate to charge lower prices for non-core users, but this should be based on an assessment of the difference in standards set by core users compared to a basic service benchmark.

To manage demand and network capacity it would appear equitable to charge only the additional marginal costs for other agencies to use the network. An apportionment of other costs should be considered.

This approach should ensure that pricing does not inappropriately encourage smaller users to develop separate networks, which may be economically and spectrally

inefficient, while at the same time ensuring that the needs of smaller users do not result in disproportionate costs for the network.

Question 5 Conclusion:

For the purpose of establishing an equitable cost regime, if the requirements of the core users raise the costs of the network above the requirements of other users, it is considered reasonable that the core users bear these extra costs.

1.6 What is the appropriate balance between fixed and variable charges? What is the justification for this balance?

The GRN is required to be available to meet emergency services requirements at all times and as such has reasonably established fixed costs to currently provide this level of service to existing users. Agencies are required to budget for costs including radio charges on an annual basis and fixed costs provide the basis for accurate budgeting.

Question 6 Conclusion:

The Government supports the principle of fixed charges so there is clarity around the funding and the capacity to ensure costs are recovered.

1.7 What is the most appropriate unit of consumption? If it is terminal numbers, are there grounds for setting different prices for active and inactive terminals?

The cost of the mobile radio network largely relates to maintaining the availability of the network in the event of an emergency and so are largely invariant to the intensity of usage. Given this, for simplicity IPART may consider charging on the basis of a per terminal charge.

A per terminal charge is a proxy for an agency's overall demand for mobile radio: the more terminals the greater the importance of the radio network for the agency. If a terminal is registered so that it can be connected to the GRN then a charge should be made for this because there is an economic cost of provisioning and designing the network for the greatest number of users, especially during large scale events and emergencies.

Pricing needs to be simple and so should not be based on active handsets, as this requires complex administrative monitoring of which handsets are active and at what time. As noted above, with the costs of the network largely fixed, the pricing should not encourage agencies to reduce their contribution to funding these costs by changing their active handset numbers.

Pricing should not discourage registration of handsets by the emergency services, since this is an important part of ensuring readiness of the services in the event of an emergency. It is current practice for the emergency services to register all handsets on the GRN even though many of those handsets are outside the GRN footprint. This allows service personnel to be moved into the GRN footprint with ready to use handsets and is an important part of provisioning the response capability of the emergency services.

The number of handsets (in-vehicle and portable) held by a particular organisation is a simple and easily understood proxy for both demand for access to the network and usage of the GRN itself.

As illustrated in Table 2 below, the largest four users of the GRN are all emergency services agencies having high intrinsic service requirements and these users hold around 73 percent of all radio handsets connected to the network.

Agency	Number of radio handsets registered
NSW Rural Fire Service	8563
Fire and Rescue NSW	2481
NSW State Emergency Service	4096
Ambulance Service of NSW	3036

Table 2 Largest four users of the GRN by radio handset numbers – as at 10 January 2011

The Government notes that many agencies provide services across the entire State, including areas outside of the ‘footprint’ of GRN coverage. For example, the NSW Rural Fire Service (RFS) has a number of GRN compatible handsets located outside the GRN coverage area (footprint). These handsets are predominately used in local operations and incidents to communicate using the RFS conventional network.

However, in the event of major incident, RFS brigades may be deployed to different geographical areas within NSW and these handsets can be readily switched over to enable communications via the GRN in areas where GRN coverage is available.

Of the total number of agency handsets capable of being able to use the GRN, 67% of them are currently actively registered and operating inside the GRN footprint (as at 1 April 2011).

In considering the use of registered handset numbers as a proxy for agency demand for mobile radio, IPART should consider the issue of the distribution of handsets out of the GRN area. The objective is to ensure that the handset numbers reflect the relative demand for the RFS compared to other core users of the network. If total handsets is not considered representative of their relative demand, then a different number of handset numbers could be determined (based for example, on modelling of the maximum likely number of handsets that could be deployed to the network). Alternatively, IPART may wish to consider a two tier pricing regime with lower prices for handsets located out of the network footprint.

It is noted that over time the network managed by the Telco Authority may grow, as agency assets vest into the network, so that the proportion of handsets within the Telco managed network is expected to grow over time.

Question 7 Conclusion:

A per terminal charge is a proxy for an agency’s overall demand for mobile radio as the prices for the GRN are largely fixed and the required revenue stream to service those costs needs to be clear.

In considering the use of registered handset numbers as a proxy for agency demand for mobile radio, the Tribunal should consider the issue of the distribution of handsets out of the GRN area.

1.8 Is some form of time-of-use pricing, distance-based pricing or a premium for high-priority connection to the GRN appropriate?

Pricing should be on a fixed basis, in part because network costs are fixed, but also because the design of the network is driven by the need to provide capacity to provide services in emergency situations. During emergencies, demand management is effected by giving priority to the relevant service agencies. Pricing is not required for this purpose and could produce perverse results, where emergency services are discouraged from using the network during emergency periods. Similarly, as the network is designed have the capacity to deal with emergency peaks, it would not be appropriate to base cost recovery on off-peak usage that does not reflect the cost drivers of the network.

The Government believes there is an opportunity to package a standard level of service to meet the majority of user's requirements and to provide a schedule of charges for service requirements outside of the standard service (Ancillary Services). Service requirements beyond the standard service may incur significant costs and include items such as 'telephone interconnect' where a mobile radio can dial onto a telephone network and connection of agency specific operations through a console (Centracom).

Service levels distinction

Standard Level of Service

The Government believes that the following standard services should be incorporated into the terminal pricing model are as follows:

- Network access
- GRN Network Management and Monitoring
- GRN Network reporting
- Encryption Services
- Console access

Ancillary services

The Government believes that the following services beyond the standard level should be individually priced.

- **Adds Moves Changes** – Based on a fee for service for all changes other than registration on the network.
- **Deregistration** – A charge for deregistration of a terminal on the network. To dissuade users from requesting handsets be deregistered and re-registered to avoid charges during non peak months. There is no current charge for deregistration of a terminal.
- **Telephone Interconnect** – A flagfall for initiating a connection and a charge per 30 seconds of call. These services are used only rarely and are costly to establish and result in significant demands on the network. Accordingly a charge to limit overuse of this service is appropriate. Current charges are a flagfall of \$4.06 and a usage charge per 30 seconds or part thereof of \$0.51.
- **Console connection** – A one off charge for connecting a console to the network. This acknowledges the cost of providing the equipment and support for a console connection. Schedule of charges to be developed between the Telco Authority and users due to the specific nature of this service.

Question 8 Conclusion:

The Government supports pricing on a fixed basis and believes there is an opportunity to package a standard level of service to meet the majority of user's requirements and to provide a schedule of charges for service requirements outside of the standard service.

1.9 What would constitute equitable pricing of the GRN services used by the ACT Emergency Services, RailCorp, other essential service providers and isolated infrequent users?

The ACT Emergency Services is a special case in that it owns the sites, equipment and infrastructure within the ACT to support its own government Trunked Radio Network (TRN). The TRN is connected to the GRN Network Operations Control Centre to enable shared trunking connectivity (that is the capacity for ACT users to talk 'one to many') as well as disaster recovery capability.

The ACT Government meets all costs associated with this level of connectivity as part of a separate contractual agreement with the NSW Government (ACT Trunked Network Agreement).

To accommodate the specific requirements of RailCorp in a number of tunnel based stations, they own and maintain some GRN compatible equipment. Costs associated with this do not impact on the GRN.

Question 9 Conclusion:

It is proposed that this arrangement continue and that the IPART review not include any GRN pricing for ACT Emergency Services. Any variation to the contracted ACT Trunked Network Agreement will be negotiated by the NSW Government.

1.10 What was the size of your charges and bills for access to the GRN in 2009/10 and 2010/11, and what proportion of the total business operating costs (excluding depreciation and interest) did the bills represent in those years?

Question 10 Conclusion:

Table 3 below indicates the size of the GRN access charges of the three emergency services agencies supported by statutory contributions as a proportion of their business costs.

Agency	GRN Charges 09/10 (\$'000)	GRN Charges 10/11 (est, \$'000)	Proportion GRN Charges to Total Business 09/10 (%)	Proportion GRN Charges to Total Business 10/11 (est, %)
RFS	586	707	0.1%	0.1%
FRNSW	950	1,146	0.2%	0.2%
SES	736	808	1.3%	1.3%
Total	2,272	2,661	0.2%	0.2%

Table 3 GRN Charge Analysis

1.11 If you were funded by statutory contributions, what was the size of those contributions in 2009/10 and 2010/11 and what proportion related to the charges levied on you by the GRN?

Question 11 Conclusion:

Table 4 below indicates each of the agencies funded by statutory contributions and the relevant size of that contribution.

Agency	Insurance Contribution (\$'000)	Local Govt Contribution (\$'000)	Insurance GRN Proportion	Local Govt GRN Proportion
RFS	159,600	25,300	0.4%	2.3%
FRNSW	371,195	60,735	0.3%	1.6%
SES	36,203	5,539	2.0%	13.3%

Table 4 GRN Charges by Statutory Contributions

1.12 Whether it is justified to phase in full cost recovery or to recommend Community Service Obligations, and how either approach should be applied?

Question 12 Conclusion:

The possible phasing in of full cost recovery and/or introduction of Community Service Obligations is a matter for Government consideration, drawing on the cost impact information to be provided by the IPART review.

1.13 What are the implications of national developments and the application of competitive neutrality principles for this review?

1.13.1 National developments

NSW is a member of the National Coordinating Committee for Government Radiocommunications (NCCGR), a body established to negotiate with Federal Authorities for harmonised spectrum to improve interoperable communications between government jurisdictions, especially emergency services.

In 2009, the NCCGR developed a strategic framework outlining guiding principles and key areas of work over a ten year period that would create a “harmonised radiocommunications environment for public protection and disaster relief”. The framework received endorsement from the Council of Australian Governments (COAG).


Following a major review of 400MHz spectrum band, in 2010, the federal spectrum regulator, the Australian Media and Communications Authority (ACMA), enabled the provision of a limited allocation of dedicated spectrum for government use.

This spectrum is provided to underpin emergency services radiocommunications needs and demands with priority for services that provide Public Protection and Disaster relief (Tier 1 users). Prioritisation will be essential for NSW as there is less spectrum in the 400MHz allocation than currently used with existing technology.

The ACMA strongly promotes the use of spectrally efficient trunking technology that underpins the GRN (inefficient conventional technologies will be penalised) as well as reducing channel bandwidths from 25kHz to 12.5kHz to create extra capacity.

By 2018, all ACMA requirements need to be met including NSW radiocommunications spectrum assignments to be accommodated in the government allocation. ACMA embargos are in place to ensure compliance – this will generate migration, equipment and infrastructure upgrade costs for Government.

The costs of NSW meeting the requirements of the Commonwealth reforms are not yet fully quantified lending more support for a further review of the IPART pricing after the first 12 months of its implementation (see Section 4).

Figure 3 below shows the proposed work schedule to comply with ACMA requirements. The ACMA compliance deadline for each body of work is shown by the symbol  with a final end date of 2018.

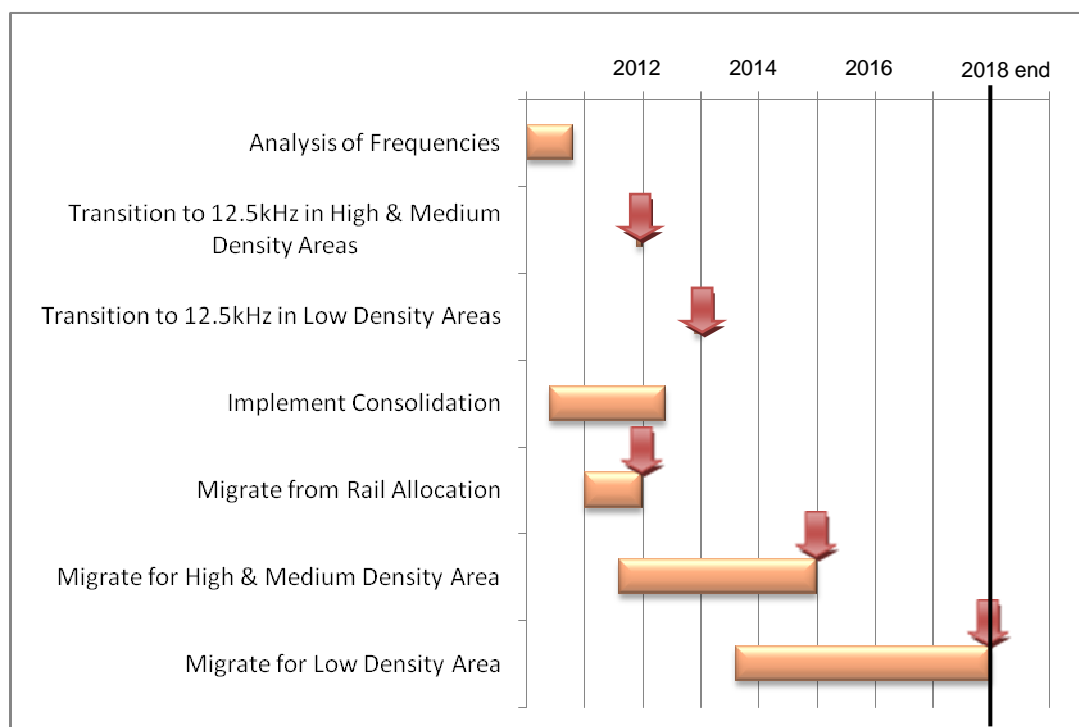


Figure 3 Timeline for Activities to Meet ACMA Requirements

Costs associated with meeting the ACMA compliance schedule are still being determined but will be substantial. In some instances, complying to specific embargos, migration of radio services to the government allocation and transitioning to the new arrangements will require procurement of replacement site equipment and terminal devices.

The 400MHz Band Plan and licensing instructions are currently being developed by a specialist spectrum engineer for national endorsement by end of June 2011.

Analysis is still being undertaken to determine the overall impact and costs for Government.

1.13.2 Competitive neutrality in pricing

It is appropriate to apply competitive neutrality principles to government businesses that use the government owned and operated mobile radio network. This approach will ensure that those government businesses do not get a competitive advantage from pricing that is set below commercial equivalent rates. The competitive neutrality

principles are provided in the *NSW Government Policy Statement on the Application of Competitive Neutrality* (TPP02-01, January 2002, NSW Treasury website).

This approach implies the application of a price discrimination approach for these entities that takes into account the considerations in the IPART issues paper:

Competitively neutral government businesses are required to:

- charge prices that fully reflect costs,
- pay, or include an allowance for, taxes and charges paid by the private sector,
- pay commercial rates on borrowings,
- generate commercially acceptable profits, and
- comply with the same regulations that apply to private businesses (eg, planning and environmental laws).

Question 13 Conclusion:

The Government acknowledges that national developments around spectral efficiencies and transitioning to the dedicated 400MHz government allocation will have significant costs. These costs and overall impact are still being assessed and will be monitored by the Telco Authority and relevant sections of Government will be briefed as the impact is quantified.

The Government supports the adoption of competitive neutrality principles for public trading agencies that use the GRN.

1.14 Are there other issues relevant to this review, and, if so, what are they?

Some individual agencies have expressed the following concerns:

The New South Wales Police Force (NSWPF) as a future user of the GRN

The NSW Police Force supports the objective of the consolidating radio networks to drive greater operational effectiveness and cost efficiency, and would like to ensure that the development of full cost recovery pricing complements these objectives, particularly to minimise potential inefficiencies, including from the duplication of infrastructure and cross-charging between agencies, which may not be resolved by terminal pricing alone.

The NSW Police Force also would like to ensure that the pricing reforms do not adversely impact on its operational responsibilities, including providing law enforcement and public safety services to the community, and proposes that IPART's recommendations be reviewed following the establishment of a managing board for the Telco Authority and the further development of a policy framework for radio.

The NSW Rural Fire Service (RFS)

The RFS wishes to ensure that the impact of a pricing model based on the number of radio handsets registered on the network (as distinct from the subset that is active on the network in the course of normal activity) does not contribute to an additional and significant impost being created, particularly in the circumstances where a majority of RFS handsets are only activated during the provision of a response to an emergency.

The RFS also notes a concern that coverage within the current GRN footprint does not match that of the RFS service delivery area, and that there is a potential for there to be a financial impact in the provision of an equivalent operational coverage and performance.

The RFS also wants to ensure that additional consultation take place with contributing members of the Rural Fire Fighting Fund with regards to the proposals, and in particular with local government.